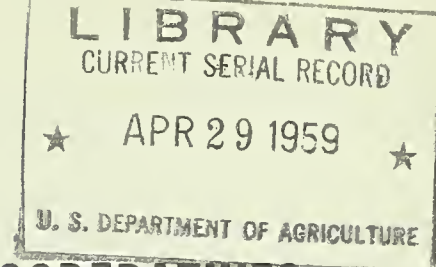


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AN APPRAISAL OF FROZEN FOOD LOCKER COOPERATIVES



By Bert D. Miner, L. B. Mann, and Paul C. Wilkins

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The Farmer Cooperative Service conducts research studies and service activities of assistance to farmers in connection with cooperatives engaged in marketing farm products, purchasing farm supplies, and supplying business services. The work of the Service relates to problems of management, organization, policies, merchandising, product quality, costs, efficiency, financing, and membership.

The Service publishes the results of such studies, confers and advises with officials of farmer cooperatives; and works with educational agencies, cooperatives, and others in the dissemination of information relating to cooperative principles and practices.

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SUMMARY

An industrywide survey of frozen food locker plants made by Farmer Cooperative Service in 1955 furnished the basic data for this study which was undertaken to determine the operating characteristics, the state of progress, and problem areas of cooperative frozen food locker plants. The characteristics of all frozen food locker plants, as outlined in the industrywide survey, allowed comparisons to be drawn between cooperative and all locker plants.

Compared with all locker plants some of the more important operating characteristics of cooperative locker plants were as follows:

- In terms of average locker capacity per plant, they were 7 percent smaller.
- The percentage of lockers rented to lockers installed was about 4 percent greater.
- There was substantially no difference in the number of locker patrons served per plant but cooperatives served only about half as many home freezer patrons.
- They performed fewer commercial and merchandising activities.
- Their locker rental rates averaged about 11 percent below the industry and average processing rates were 5 to 15 percent below.
- The average locker cooperative slaughtered about 13 percent more livestock per plant.
- Average sales amounted to \$14,900, just over half the industry average.
- Estimated total sales were approximately \$6 million, or 2 percent of the total sales for the entire frozen food locker industry for 1954. Meat was the major sales item, accounting for over three-fourths of the cooperatives' total sales.

As the preceding comparisons of operating characteristics point out, frozen food locker cooperatives have been slow to recognize industry trends and change their operations accordingly. Some of the problem areas accounting for this lack of progress are: (1) Slowness on the part of cooperative directors and managers to recognize the need for change, (2) unwillingness or inability of directors and management of parent cooperatives to allow sideline locker plant enterprises to adjust and expand to meet changing economic conditions, (3) unrealistic policies which prevent rate increases in line with increased costs, and (4) inability to obtain and hold the kind of management personnel required to meet the challenges of changing times.

If locker cooperatives are to keep abreast of the time, overcome their weaknesses, and improve their services to members, they need to give more attention to: (1) Appraising external factors affecting their business, (2) employing, training, and adequately compensating capable management, (3) providing ample financing, (4) developing an aggressive merchandising program, and (5) cooperating with other cooperatives.

AN APPRAISAL OF FROZEN FOOD LOCKER COOPERATIVES

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Over the years the frozen food locker industry has been continually changing in composition and scope of operations. Not all plants in the industry, however, have changed at the same rate.

This study was made to determine the operating characteristics of the average frozen food locker cooperative and compare it with the average frozen food locker plant. It was hoped that this comparison would silhouette the state of progress of locker cooperatives and serve as a basis for indicating opportunities for improvement in operations.

Data for this study were abstracted from an industrywide survey Farmer Cooperative Service made in 1955. The characteristics of the average frozen food locker plant, as outlined in the report entitled "1955 Survey of the Frozen Food Locker Industry," were used as a basis for comparison. The term "all plants" refers to all frozen food locker plants and is used in this report to simplify the exposition.

LOCATION

The accompanying map shows the location of the 402 frozen food locker cooperatives reporting (figure 1). As nearly as can be determined these represented about two-thirds of all the cooperative locker plants in the United States in 1955. In that year, frozen food locker cooperatives accounted for approximately 6 percent of the total number of plants in the industry.

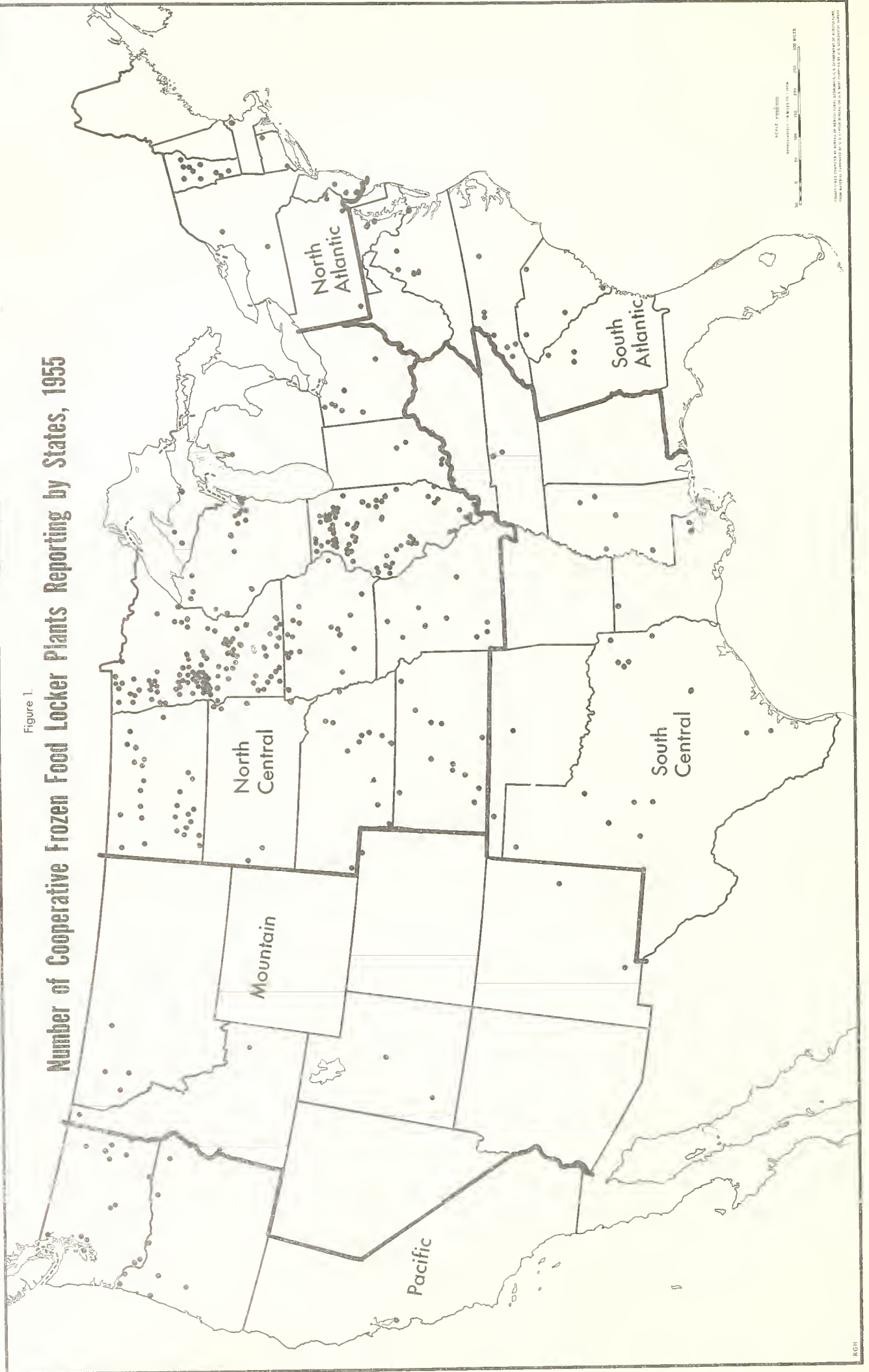
Of the locker cooperatives reporting, two States, Minnesota and Illinois, accounted for 27 percent and 18 percent, respectively.

The following tabulation shows that almost three-fourths of the cooperative locker plants reporting were located in the North Central Region:

<u>Region</u>	<u>Cooperative locker plants</u>	
	<u>Number</u>	<u>Percent</u>
North Atlantic	22	5
North Central	297	74
South Atlantic	21	5
South Central	26	7
Mountain	12	3
Pacific	24	6
United States	402	100

Number of Cooperative Frozen Food Locker Plants Reporting by States, 1955

Figure 1.



CAPACITY

The average cooperative locker plant was about 7 percent smaller than the average locker plant in terms of locker capacity (table 1). Since the cooperative had almost as many lockers installed as the larger average locker plant, it left less room for bulk storage space.

Table 1. - Number of plants reporting, average locker capacity, lockers installed, lockers rented, and percentage rented

Type	:Number	: Lockers			: Percent of lockers	
	:of	:Average	:Average:		: rented of	
	:plants	:plant	:in-	:Average:	:Locker	:Lockers
	:reporting:	:capacity:	:stalled:	:rented	:capacity:	:installed
Cooperative plants	402	458	430	354	77	82
All plants	6,390	495	433	340	69	78

Bulk storage space is, of course, a prerequisite for a merchandising program. This is the area in which the plant's merchandise is held after processing, if such is necessary, awaiting sale. The size of the bulk storage space needed depends on the volume of frozen food sold. In addition, some amount of bulk storage space may be needed to hold custom processed food prior to its being picked up by the patron or placed in the patron's locker. The plant may even desire to have some bulk storage space available for commercial rental.

The average cooperative locker plant rented a greater percentage of its installed lockers than the average locker plant did (table 1). This was mostly because of the continued demand among farmers for lockers. Those farmers who did not own home freezers continued to use lockers to store their frozen foods. Some farmers who owned home freezers used lockers as supplementary storage to their home freezers. They found that a home freezer could only hold so much food. Since they could not kill a beef one half at a time, they needed additional storage space. Their locker cooperatives filled this need by renting them the additional storage space on a month to month, semiannual, or annual basis.

AFFILIATION

The proportion of nonaffiliated plants was substantially the same between cooperative and all plants as shown in the following tabulation. It compares cooperative and all plants by type of affiliation:

<u>Affiliation</u>	<u>All plants</u>	<u>Cooperative plants</u>
	Percentage of plants	
Meat market or grocery	37	11
Ice and cold storage	6	2
Dairy plant	5	29
Miscellaneous	6	8
Nonaffiliated	46	50
Total	100	100

The major affiliation differences were between dairy plants, and meat market or grocery stores. Experience has shown that frequently affiliated establishments got into the frozen food locker business by installing some frozen food lockers in their existing buildings as a sideline. Occasionally the sideline grew more rapidly than the original business and thus became the dominant business. On other occasions locker plants, which operated as independent businesses initially, opened up retail meat markets or grocery stores in their plants as supplements to existing business volume.

The highly similar operating nature of locker plants and meat markets or grocery stores allowed them to combine operations with a minimum of conflict. Other types of affiliations did not operate so smoothly. The boards of directors of the larger organizations often were more concerned with the marketing or purchasing activities, or both, of the parent organizations and were, therefore, largely unfamiliar with the trends, opportunities, or problems of the appended locker plants. This lack of knowledge led to policies which restricted the locker plants' scope of operations. For these reasons locker cooperatives affiliated with dairy, ice and cold storage, farm supply and grain cooperatives among others, often suffered from the disadvantage of being operated as mere sideline operations.

Half the locker cooperatives in this study were not affiliated. These were compared with the largest group of affiliated locker cooperatives to observe the differences and similarities. Cooperative frozen food locker plants affiliated with dairy cooperatives were the largest affiliated group accounting for some 29 percent of the total affiliated group.

Locker cooperatives affiliated with meat markets or grocery cooperatives, ice and cold storage cooperatives or a miscellaneous group of cooperatives were not compared with nonaffiliated locker cooperatives. This was mainly because the small number of establishments in these groups caused wide fluctuations in the statistics.

Generally speaking, more nonaffiliated locker cooperatives performed the various listed commercial activities than those affiliated with dairy cooperatives. This is shown in the following tabulation:

<u>Commercial activity</u>	<u>Non-affiliated</u>	<u>Affiliated with</u>
	<u>locker cooperative</u>	<u>dairy cooperative</u>
	Percentage of plants	
Sell commercial frozen food	42	16
Sell ice cream	42	41
Sell packer meat in wholesale cuts	37	27
Manufacture pork sausage for sale	28	9
Buy livestock for slaughter and resale	22	13
Produce cured meats for sale	22	17
Sell home freezers	10	4
Operate a food plan	7	3
Manufacture ice cream	0	12

The number of different commercial activities performed plus the volume of business handled through each determined the volume of sales. The nonaffiliated locker cooperatives had greater average sales per establishment than affiliated ones. The comparison of average sales by type of affiliation was as follows:

<u>Type of affiliation</u>	<u>Cooperatives reporting</u>	<u>Average sales</u>
Nonaffiliated	201	\$ 16,800
Miscellaneous	34	15,300
Dairy plant	116	11,700
Ice and cold storage	6	2,000

The range in average sales indicated the extent to which the various establishments adjusted to trends in the locker and freezer provisioning industry. The nonaffiliated locker cooperatives adjusted more readily while locker cooperatives affiliated with ice and cold storage cooperatives showed the least change from a straight custom operation.

However, even the nonaffiliated cooperatives were slow to adopt commercial services as was seen by comparing their average sales per establishment of \$16,800 with similar sales of \$26,300 for all locker plants. The reluctance of many locker cooperatives to keep abreast of industry changes rested largely on the preconceived idea that they were organized originally to provide farmer members with custom services at cost and therefore should not deviate from that objective.

Somewhat in line with the idea of custom services at cost, locker cooperatives were more reluctant to raise locker rental rates and processing rates than were all locker plants. Average processing rates were substantially the same for cooperatives whether they were affiliated or nonaffiliated. Average locker rental rates varied from a high of \$12.86 a year in nonaffiliated locker cooperatives to a low of \$11.02 in those affiliated with dairy cooperatives. The average for all plants, including cooperatives, was \$13.28 a year.

PATRONS

There appeared little relationship between the type of affiliation and the number of home freezer patrons served. Home freezer patrons of locker cooperatives seemed attracted more by custom processing services than commercial services. This may have been because so many of them were farmers who produced much of their own food supplies or bought them unprocessed from neighboring farmers.

The average locker cooperative served substantially the same number of locker patrons as the average locker plant but only about half as many home freezer patrons (table 2). The definition of home freezer patrons accounted for part of this difference. In the 1955 industry wide survey, operators were asked, "About how many home freezer owners, who do not rent lockers in this plant, were active patrons of this plant during 1954?" This automatically grouped patrons who owned a home freezer but also rented

a locker as locker patrons. Since farmers frequently rented a locker in addition to owning a home freezer, they were classed as locker patrons according to the previously discussed definition.

Table 2. - Number and percentage of locker and home freezer patrons by type of plant

Type	: Locker patrons		: Home freezer patrons		: Total
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>
Cooperative plants	306	78	88	22	394
All plants	305	64	173	36	478

A report on home freezing and canning ^{1/} shows that more than 10 times as many rural farm households owning home freezers also rented lockers as compared with urban households owning freezers. A similar comparison for rural farm and rural nonfarm households gave a ratio of almost 6 to 1 for the rural farm households.

These data imply that farm patrons used more custom services than nonfarm patrons regardless of whether they rented a locker or owned a home freezer or both. This is probably one of the more important reasons why locker cooperatives have been slower to undertake commercial services than other locker plants. As can be seen in the following tabulation, a greater proportion of the locker patrons of locker cooperatives lived on farms than for all locker plants:

<u>Type</u>	<u>Locker patrons on farms</u>
	<u>Percent</u>
Cooperative plants	73
All plants	63

PROCESSING

Approximately one-fifth of the cooperative locker plants did no food processing; that is, chill, cut, wrap, and freeze meats. This meant they served only as food storage and sales establishments. Probably the main reason such a large percentage did no food processing was because many were branch plants of various multi-unit operations that had centralized processing. Another reason was that some parent organizations had decided to limit the services offered by their locker affiliates to renting lockers only.

In the latter case patrons were compelled to buy or have their food processed elsewhere whereas patrons of multi-plant operations had access to both custom and often commercial processing. The percentage of cooperative and all plants doing food processing was as follows:

^{1/} U. S. Department of Agriculture. Home Freezing and Canning by Households in the United States -- by Region. Rpt. 11, Household Food Consumption Survey 1955.

Type	Chill, cut wrap, and freeze Percentage of plants
Cooperative plants	79
All plants	89

COMMERCIAL OPERATIONS

A smaller proportion of the cooperatives performed various specified commercial operations as compared with all plants (table 3). Part of this difference was probably due to the greater use of multi-plant units with centralized processing among the cooperatives.

Table 3. - Percentage of plants engaged in selected commercial operations by type of plant

Type	Commercial operation			
	: Buy livestock:	Produce	: Manufacture:	Manufacture
	: for slaughter:	cured meats:	pork	: commercial
	: and	: for	: sausage	: sausage
	: resale	: sale	: for sale	: for sale
	Percentage of plants			
Cooperative plants	18	19	19	5
All plants	24	26	34	8

Part of the difference resulted also from the greater emphasis cooperatives placed upon custom processing. This emphasis was even more apparent in the area of merchandising.

MERCHANDISING ACTIVITIES

Cooperatives lagged behind the industry in terms of merchandising activities (table 4). Multi-plant operations among cooperatives partly accounted for the lower percentage of these establishments performing the various merchandising activities. Nevertheless, in these cases patrons could be served by the central plant through the branch plants.

Table 4. - Percentage of cooperative and all locker plants engaged in some selected merchandising activities

Type	Merchandising Activity				
	: Sell packer:	Sell	:	:	: Operate
	: meat in	: commercial:	Sell	: Sell	: a
	: wholesale	: frozen	: ice	: home	: food
	: cuts	: food	: cream:	freezers:	plan 1/
	Percentage of plants				
Cooperative plants	34	34	43	9	7
All plants	54	54	58	15	16

1/ Finance or arrange financing for more than 60 days for bulk food purchases by patrons.

Probably a more important reason was the continued emphasis locker cooperatives placed on custom services to farmer patrons. For policy or other reasons locker cooperatives did very little active selling. This area of opportunity seems to hold great potential and cooperatives need to develop it. To do otherwise will probably result in continually declining business and finally they may go out of the locker and freezer provisioning business completely.

RATES

Although operating costs have gradually increased since the early 1940's, locker cooperatives have only reluctantly raised their locker rental and processing rates. Even then they lagged behind the industry average (table 5). The average locker rental rate among locker cooperatives was about 11 percent below the industry average and average processing rates ranged from 5 to 15 percent below.

Table 5. - Average locker rental and processing rates by type of plant

Type	: Average : Rate per 100 pounds for			
	: locker : rental : rate	: Cut, wrap, : and freeze : beef	: Cut, wrap, : freeze, and : grind beef	: Cure : and : smoke
Cooperative plants	\$ 11.33	\$ 3.12	\$ 3.88	\$ 6.00
All plants	13.28	3.65	4.28	6.32

These lower rates probably resulted in part from the attitude of many directors of cooperatives. They felt that the locker plant should be operated strictly as a service to members on a breakeven basis. Because of that philosophy, managers of locker cooperatives were often handicapped in attempting to build volume by adding commercial processing and merchandising to their existing custom operations. Likewise, too often in trying to operate on a breakeven basis plants were actually operated at a loss. This speeded the demise of more than one locker cooperative. The data in this study indicate there will be others following this same path unless they re-examine their operating policies in terms of current industry trends.

SLAUGHTER VOLUME

Slaughtering is one area in which locker cooperatives showed comparative strength (table 6). The average cooperative slaughtered about 13 percent more livestock per plant than the average locker plant did.

Table 6. - Average slaughter volume by type of plant

Type	: Cattle :		: Sheep :	
	: and :		: and :	
	: calves	: Hogs	: lambs	: Total
Cooperative plants	446	477	11	934
All plants	407	402	16	825

Proportionally, only one-tenth of the livestock slaughtered by cooperatives was for sale compared with one-fourth for all plants. This pointed out once again the emphasis cooperatives placed on custom services.

Locker cooperatives could advantageously use commercial slaughtering to expand their business and in so doing greatly benefit their members and patrons. The cooperative could buy livestock from its farmer members, slaughter and process the animals, and then sell the meat to locker and home freezer patrons as well as the local institutional trade.

By operating in this manner the locker cooperative would generate at least six distinct benefits for members, patrons, and the community.

1. It would serve as another market outlet for livestock of farmer members.
2. The increased volume of slaughtering and processing would help improve the plant's operating efficiency.
3. It would serve as an attractive food source for those people desiring to buy food for their locker or home freezer.
4. The increased savings resulting from the expanded and more efficient operation would accrue to members and patrons.
5. The cooperative's payroll plus any savings allocated in cash would add to the community's purchasing power.
6. A locker cooperative that aggressively undertakes such a program would probably be around to serve the people long after less aggressive plants have discontinued operations.

This is not a complete program nor does it list all the direct and indirect benefits that could flow from such a program. Rather, these few benefits were pointed out as an inducement for managers and directors of locker cooperatives to consider such a program.

SALES VOLUME

Locker cooperatives were slow to undertake merchandising programs. This slowness was reflected in the large percentage that had no sales. About one-third of the cooperatives had no sales as compared with 17 percent for all plants. One reason for this is that they felt it was beyond the scope of their organization to enter into commercial processing and merchandising. They felt they should limit their operations to custom services. In some cases the only function locker cooperatives performed was renting frozen food storage space.

The large percentage of cooperatives that had no sales affected the average sales per plant when all cooperatives were considered. Under those circumstances, average sales per cooperative amounted to \$14,900. This compared with average sales of \$26,300 per plant for all plants, thus giving a comparative ratio of 1.8 to 1 in favor of all plants. This meant the average locker plant had the equivalent of \$1.80 worth of sales for each \$1 worth of sales the average cooperative had.

When only those establishments that had some sales were compared, the ratio was narrower -- 1.5 to 1. This meant that although they made a better showing, on the average, locker cooperatives' sales were almost one-third smaller than those for all plants. Cooperatives that had some sales had average sales per plant of \$22,000 as compared with \$32,000 for all plants.

Locker cooperatives that had some sales compared favorably with all plants on the basis of percentage of establishments falling within specified sales volume groups, except for \$50,000 and over. This comparison follows:

<u>Sales volume</u>	<u>Cooperative plants</u>	<u>All plants</u>
	Percentage of plants	
Under \$ 5,000	41	43
\$ 5,000 - \$ 9,999	13	12
\$10,000 - \$24,999	24	16
\$25,000 - \$49,999	12	11
\$50,000 and over	<u>10</u>	<u>18</u>
Total	100	100

Thirty-two percent of the cooperatives and 17 percent of all plants were excluded from this comparison because they had no sales volume. It included only those that had some sales. Cooperatives and all plants had substantially the same proportion of establishments with sales of under \$10,000. The major variation came in the proportion of establishments in specified sales volume groups above \$10,000. Proportionally, there were more cooperatives in the \$10,000 to \$24,999 sales classification but only about half as many in the \$50,000 and over group.

In total, reporting cooperatives had estimated sales of about \$6 million or approximately 2 percent of the estimated total sales for the entire frozen food locker industry in 1954. For that year, industry sales approached \$275 million. This meant reporting cooperatives were not contributing to estimated total sales in proportion to their number because they accounted for about 4 percent of the plants in the industry. Meat sales accounted for over three-fourths of estimated total sales for cooperatives.

TRENDS AND RECOMMENDATIONS

Frozen food locker cooperatives need to take a good hard look at their present operation to see where they stand in relation to industry trends if they are to serve members effectively. Studies Farmer Cooperative Service has made of the locker and freezer provisioning industry during recent years have crystalized certain trends. Briefly they are:

A decline in:

1. Number of plants operating, mostly due to discontinuance of small and limited service plants.
2. Number of lockers rented, principally because of growing use of home freezers.

An increase in:

1. Number of patrons served, primarily due to home freezer customers.
2. The areas of processing and merchandising, particularly selling frozen food in bulk quantities to locker and home freezer patrons and wholesaling to restaurants, schools, hospitals, and similar organizations.
3. Sales volume, because of emphasis on commercial activities such as slaughtering livestock for sale; selling packer meat and frozen foods; selling home freezers; extending credit for bulk food purchases; providing home delivery service; and offering food counseling among other things.

A number of general economic changes have directly or indirectly influenced the industry to change as it has. A few of these changes are: the plentiful supply of foods since the war years, the advent of home freezers, the decrease in number of people on farms, the trend toward specialized farming, the higher standard of farm family living, and the development of prepared foods among other things.

Locker cooperatives have been slow to sense the effect of these changes and adjust their operations accordingly. Some of the reasons for this lack of progress are:

1. Slowness on the part of cooperative directors and managers to recognize the need for change from a strictly custom processing and locker rental business, largely for farmers, to one which includes commercial processing and merchandising from both farm and non-farm home freezer customers.
2. Unwillingness or inability of directors and management of parent cooperatives to allow sideline locker plant enterprises to adjust and expand to meet changing economic conditions.
3. Unrealistic policies of directors which prevent rate increases in line with increased costs. As a result, many locker cooperatives are unable to accumulate funds for emergencies or expansion.
4. Because of these and other unsound policies, many cooperative locker plants have been unable to obtain and hold the kind of management personnel required to meet the challenges of changing times.

Locker cooperatives can be a much greater force than they are today in helping farmers extend marketing activities further across the board. Such operations would help obtain some of the margins in processing and merchandising. They would also help keep producers better informed as to changing consumer demands and exert added competition in the market.

Because of their location in small--and medium-sized towns close to sources of livestock and other food supplies, these plants have an economic advantage over larger plants located in more distant processing centers.

The advantage flows primarily from savings in transportation, handling, and labor costs. They can also contract with farmers for the type, weight, and quality of meat animals that consumers demand.

If locker cooperatives are to keep abreast of the times, overcome their weaknesses, capitalize on local processing and merchandising opportunities, and thereby improve their services to farmers, they need to give greater attention to:

1. Appraising continually external factors affecting their business such as general economic conditions; trends and developments within the industry; Federal and State legislation; local laws, ordinances, codes, and regulations; and competition.
2. Employing, training, and adequately compensating capable management.
3. Providing ample financing.
4. Developing an aggressive merchandising program.
5. Cooperating with other cooperatives.

The integration of local locker cooperatives and livestock or related cooperatives could help them improve their bargaining position. Such an arrangement could point the way toward future larger operations in processing and retailing. As these plants increase their volume of sales to the point where local demand is saturated, an overhead sales agency might then be needed to market their surplus products in other territories.

The time has passed when each cooperative group can go its separate way regardless of what happens to other cooperative activities in its immediate territory. There is a growing need for more multi-purpose type cooperatives that can serve farmers in a community with a variety of services and activities and thereby strengthen their economic position. Opportunities for continued growth in local processing and merchandising appear to be excellent. Future success depends upon informed, aggressive and forward looking leadership of cooperative managers and directors.

